

Message Text

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ACTION SS-25

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FM USMISSION USUN NEW YORK
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C O N F I D E N T I A L SECTION 1 OF 2 USUN 5531

EXDIS

FOR UNDERSECRETARY COOPER ONLY FROM FRANK (IO)

E.O. 11652: GDS

TAGS: EGEN, ETRD

SUBJ: COMMON FUND: THE BOTTOM LINE AND HOW TO GET THERE

1. NOW THAT THE NOVEMBER COMMON FUND NEGOTIATING
CONFERENCE IS OVER AND THERE HAVE BEEN FURTHER INFORMAL
DISCUSSIONS IN NEW YORK, I WOULD LIKE TO OFFER MY THOUGHTS
ON THE ESSENTIALS OF WHERE WE CAN AND SHOULD COME OUT AND
HOW WE MIGHT GET THERE.

2. THE ESSENTIAL ELEMENTS OF A SOLUTION COULD BE THE
FOLLOWING:

- . FIRST A FINANCIAL ROLE FOR THE COMMON FUND IN OTHER
MEASURES THAT IS VERY TIGHTLY CIRCUMSCRIBED. THE ROLE
IN OTHER MEASURES WOULD BE QUALIFIED AS FOLLOWS:
--CONTRIBUTIONS WOULD BE VOLUNTARY (U.S. NOT CONTRIBUTING).
--THE OTHER MEASURES FINANCED BY THE CF WOULD NOT
DUPLICATE THOSE ACTIVITIES BEING FINANCED BY EXISTING
INTERNATIONAL DEVELOPMENT LENDING INSTITUTIONS.
--CF ACTIVITIES ON OTHER MEASURES WOULD NOT ENCUMBER
THE CAPITAL STRUCTURE OF THE FUND THAT IS USED TO SUPPORT
FINANCING OF BUFFER STOCKS AND SHOULD NOT BE SUCH AS TO
REDUCE THE EFFECTIVENESS OF THE CF IN BORROWING IN PRIVATE
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CAPITAL MARKETS.

B. SECOND, CONTRIBUTIONS OF CALLABLE CAPITAL OR
GUARANTEES IN RESPECT TO AN INDIVIDUAL COMMODITY ARRANGE-
MENT (ICAS) SHOULD BE MADE, WHERE POSSIBLE, DIRECT TO THE
COMMON FUND ON BEHALF OF THE ICA. IT DOES NOT MAKE SENSE
TO ME TO HAVE CALLABLE CAPITAL OR GUARANTEES PLEDGED FIRST TO
AN ICA THEN TRANSFERRED TO THE COMMON FUND. THIS UNNECESSARILY

ENCUMBERS THESE ASSETS AND COOULD COMPLICATE THE PROBLEM OF RECOURSE IN THE EVENT OF DEFAULT. SUCH ENCUMBERED ASSETS WILL BE OF LIMITED VALUE IN SUPPORTING BORROWING BY THE COMMON FUND IN PRIVATE CAPITAL MARKETS.

C. THIRD, THE RATIO OF CASH CONTRIBUTIONS TO CALLABLE CAPITAL OR GUARANTEES FOR AN ICA SHOULD BE THE MINIMUM CONSISTENT WITH THE ABILITY OF THE COMMON FUND TO MAINTAIN A HIGH CREDIT RATING IN CAPITAL MARKETS.

D. FOURTH, THE FUND COULD LEND TO AN ICA BASED ON INTERNATIONALLY COORDINATED NATIONAL STOCKS. THIS WILL INCREASE THE ATTRACTIVENESS OF THE FUND TO COUNTRIES, PARTICULARLY IN AFRICA, WHERE COMMODITIES MAY NOT BE SUITABLE FOR AN INTERNATIONAL BUFFER STOCK AND MIGHT REDUCE PRESSURES FOR AN EXPANSION OF OTHER MEASURES.

E. FIFTH, THERE SHOULD BE LIMITED DIRECT CONTRIBUTIONS, BASED ON ABILITY TO PAY, FOR THE FOLLOWING PURPOSES:

--THE CASH WOULD PROVIDE INCOME FOR THE INITIAL AND BASIC ADMINISTRATIVE EXPENSES OF THE COMMON FUND; AND CALLABLE CAPITAL TO ENHANCE THE ABILITY OF THE FUND TO BORROW.

THE SECOND PART OF THIS WILL BE HARD FOR SOME TO ACCEPT ON THE GROUNDS THAT THEY BELIEVE CONGRESS WON'T ACCEPT IT. I DON'T AGREE. THE CONGRESS IS GOING TO HAVE TO APPROVE THE COMMON FUND BY LEGISLATION AND TO APPROPRIATE FUNDS AT LEAST FOR ADMINISTRATIVE EXPENSES. THERE ARE STRONG CONFIDENTIAL

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SUBSTANTIVE GROUNDS FOR A LOSS RESERVE FUND, AND IF WE PRESENT TO CONGRESS A PROPOSAL WHICH IS SUBSTANTIVELY WEAK, IT WILL BE OPEN TO ATTACK. IF CALLABLE CAPITAL CONTRIBUTIONS ARE BASED ONLY ON TRADE SHARES OF ICAS, THE AMOUNTS CONTRIBUTED BY THE STRONG CURRENCY COUNTRIES, U.S., GERMANY, JAPAN, AND SWITZERLAND, WILL BE SMALL. IT WILL BE THE MAGNITUDE OF THEIR CONTRIBUTIONS WHICH WILL DETERMINE, AT LEAST INITIALLY, THE ABILITY OF THE FUND TO BORROW IN PRIVATE CAPITAL MARKETS. THUS, A LOSS RESERVE FUND WHICH INVOLVED RELATIVELY MORE OF THEIR CONTRIBUTIONS WOULD BE REQUIRED TO GIVE THE FUND MUCH ABILITY TO BORROW. I SENT YOU OR ERNEST JOHNSTON A MEMO OUTLINING THE MANNER IN WHICH SUCH A LOSS RESERVE FUND COULD OPERATE WITHOUT IT EVER RESULTING IN LENDING OF DIRECT CONTRIBUTION TO AN INDIVIDUAL ICA.

F. SIXTH, ANY VOTING IN THE COMMON FUND WOULD BE BASED ON FINANCIAL CONTRIBUTIONS, BOTH THROUGH AND ON BEHALF OF ICAS AND DIRECT CONTRIBUTIONS. IN MY MEMO TO YOU OR ERNIE, I OUTLINED HOW A WEIGHTED VOTING SCHEME WOULD WORK.

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C O N F I D E N T I A L SECTION 2 OF 2 USUN 5531

EXDIS

FOR UNDERSECRETARY COOPER ONLY FROM FRANK (IO)

3. THE FIRST FIVE OF THE ABOVE ELEMENTS, I BELIEVE, ARE ABSOLUTELY NECESSARY FOR EVENTUAL AGREEMENT ON A COMMON FUND. WE MIGHT HAVE REPLACED THE FIFTH ELEMENT WITH AN OVERDRAFT FACILITY ALONG THE LINES YOU HAD WANTED, BUT IT IS TOO LATE NOW THAT WE HAVEN'T PUSHED IT. OUR AGREEMENT, ON THE FIRST FOUR OF THESE ELEMENTS MIGHT KEEP THE NEGOTIATING PROCESS OCCUPIED FOR SOME TIME, BUT WE WILL PROBABLY HAVE TO GIVE IN EVENTUALLY ON THE FIFTH ELEMENT BECAUSE THE LDCS PROBABLY WILL NOT GIVE UP THE PRINCIPLE OF DIRECT CONTRIBUTIONS UNTIL THEY ACHIEVE SOMETHING, NO MATTER HOW SMALL OR LIMITED. IT WILL BECOME THE NEXT TESTING POINT AFTER WE AGREE TO A LIMITED FINANCIAL ROLE FOR OTHER MEASURES.

4. THUS, I SEE TWO BASIC OPTIONS. THE FIRST OPTION IS TO GO FOR THE FIRST FOUR ELEMENTS NOW OR RELATIVELY SOON, RESERVING A POSITION ON WHETHER WE MIGHT WANT TO GO FOR FIVE AND SIX LATER ON. IF OUR MAIN GOAL IS TO DRAG OUT THE NEGOTIATIONS AS LONG AS POSSIBLE, THIS IS THE BEST OPTION. IT MAY NOT WORK AND IT WILL KEEP THE POLITICAL VISIBILITY OF THE COMMON FUND NEGOTIATIONS HIGH. IF WE CHOOSE THIS OPTION, WE MAY NEVER GET FULL WEIGHTED VOTING BECAUSE MOMENTUM WILL BUILD AMONG THE G-77 FOR A NON-WEIGHTED VOTING SCHEME.

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5. THE SECOND OPTION IS TO GO FOR A PACKAGE DEAL NOW OR

AT LEAST BEFORE THE NEXT FORMAL NEGOTIATING CONFERENCE OCCURS. THE IDEA WOULD BE TO LINE UP SUPPORT THROUGH INFORMAL DISCUSSIONS PRIOR TO THE FORMAL CONFERENCE AND THE FORMAL CONFERENCE WOULD BE UNDERSTOOD TO BE A TECHNICAL CONFERENCE DEVOTED TO WORKING OUT THE DETAILS. THE UNCTAD MINISTERIAL IN MARCH COULD BE USED TO GET INFORMAL OR FORMAL BUT HIGH-LEVEL ACCEPTANCE OF THE PACKAGE, BUT IN FORMAL LINING UP OF SUPPORT WOULD HAVE TO START WELL IN ADVANCE IN THE MINISTERIAL. THE ADVANTAGE OF THIS STRATEGY IS THAT I BELIEVE IT WOULD LOWER THE POLITICAL PROFILE OF THE FUND, MAXIMIZE THE CHANCES FOR WEIGHTED VOTING AND TO CHANNEL THE DISCUSSIONS INTO A MORE TECHNICAL MODE. THIS STRATEGY MAKES SENSE IF OUR MAIN OBJECTIVE IS TO ACHIEVE A MODEST BUT SENSIBLE COMMON FUND THAT IF IT WORKS WELL CAN BE GRADUALLY EXPANDED. I VERY STRONGLY RECOMMEND THIS SECOND OPTION, PARTICULARLY BECAUSE I THINK YOU CAN BUILD ON LATIN AMERICAN AND OPEC SENTIMENTS TO GET G-77 COMMITMENT AND WEIGHTED VOTING.

6. A WAY TO GET EITHER OPTION GOING CAN BE FOUND UNDER THE RUBRIC OF THE SECOND OPERATIVE PARAGRAPH OF THE COMMON FUND RESOLUTION NOW BEING DISCUSSED IN NEW YORK. THIS CALLS FOR THE SECRETARY GENERAL OF UNCTAD TO UNDERTAKE CONSULTATIONS WITH A VIEW TO RECONVENING THE NEGOTIATING CONFERENCE EARLY IN 1978. YOU COULD CALL COREA OR USE VAN DE HEUVEL TO GET THE MESSAGE ACROSS THAT YOU WOULD LIKE GAMANI TO CONVENE A SMALL MEETING SOON IN GENEVA OR ELSEWHERE. IT IS IMPORTANT THAT YOU SPECIFY THE PEOPLE THAT YOU WOULD LIKE TO COME. I WOULD SUGGEST THE FOLLOWING:
BESIDES YOURSELF OR BOB HOMATS:

- FROMENT-MEURICE (FRANCE)
- FRAU STEEG (FRG)

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--MICHAEL BUTLER OR DEREK THOMAS (LONDON)
--STOLTENBERG OR LAGERFELDT OF SWEDEN (WHO CAN SEAL A DEAL WITH THE NORDICS AND THE DUTCH, ALTHOUGH IT MAY BE THE BETTER PART OF WISDOM TO INVITE PRONK -- IF STILL IN THE GOVERNMENT -- ALONG AS WELL SINCE HE CAN SO EASILY CAUSE TROUBLE IF HE IS NOT INCLUDED)
--YOSHINA (JAPAN)
--ALEX ALATAS (INDONESIA)
--LALOVIC (YUGOSLAVIA AND THE G-77 SPOKESMAN IN GENEVA)
--ALFREDO VARGAS OR PG (VENEZUELA) WHO CAN SELL THE LATINS
-MULIRA (KENYA'S AMBASSADOR TO BONN) OR THE NIGERIAN PERM REP IN GENEVA. DADZIE (GHANA WOULD NORMALLY BE A CANDIDATE BUT HE IS PREOCCUPIED WITH RESTRUCTURING AND LACKS CLOUT WITH THE AFRICANS ON THIS ISSUE. IT IS ESSENTIAL THAT THERE BE AT LEAST ONE BLACK AFRICAN AND IT WOULD PROBABLY BE BEST TO HAVE BOTH MULIRA AND THE NIGERIAN PERM REP.

7. YOU AND HORMATS COULD PUT THE PROPOSITION OF OPTION
1 OR OPTION 2 ABOVE TO THIS GROUP AND SEE IF YOU COULD GET
AGREEMENT OF ALATAS TO TRY TO SELL IT TO THE ASIANS,
MULIRA AND THE NIGERIAN TO THE AFRICANS, VARGAS TO THE
LATIN AMERICANS, AND THE EUROPEANS TO THE EC. AT THE UNCTAD
MINISTERIAL YOU COULD TRY TO BROADEN THE CONSENSUS FORMALLY
OR INFORMALLY AND THE NEGOTIATING CONFERENCE COULD RESUME
IN APRIL OR MAY, DEPENDING ON THE LAW OF THE SEA CONFERENCE
WHICH WILL BE MEETING IN GENEVA AND TYING UP FACILITIES.
I BELIEVE IN MARCH AND APRIL. YOU WOULD TRY TO REACH THE
UNDERSTANDING THAT THE NEGOTIATING CONFERENCE WOULD BE
TECHNICAL AND BREAK DOWN INTO GROUPS -- PERHAPS ONE FOR EACH
OF THE ABOVE ELEMENTS.
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